Introduction

This study aims to examine nine variables and their effect on Kuwait's sovereign credit rating. The first factor is political stability, where politically stable countries are more attractive to investors than unstable countries. Haksoon (2010) concluded that there was a statistically direct relation between political stability and foreign direct investment. Kuwait, being vulnerable to foreign aggression, uses the political stability index to measure its stability.

The second factor is the gross domestic product (GDP), indicating the economic size of the country. Kuwait's dependency on oil revenues makes its GDP volatile, affecting its sovereign rating. The third factor is inflation, which can cause political instability. Samuelson and Nordhaus (1985) stated that high inflation could distort the economy.

Factors Affecting Credit Rating

The fifth factor is government debt to GDP, which measures government leverage. A lower ratio implies a healthier financial position. AlKulaib and AlAli (2021) showed that government debt to GDP had a significant inverse relation with credit ratings. The sixth factor is GDP per capita, which facilitates government taxation and strengthens financial positions.

The seventh factor is the trade balance, indicating competitiveness in the global market. A surplus implies a stronger economy. The eighth factor is unemployment, with Kuwait having a rate of 3.1% as of 2020. Studies show a strong inverse relation between unemployment and economic growth. The ninth factor is foreign debt to GDP, where high foreign debt can lead to inflationary pressure.

Methodology

This study uses the ordinary least squares regression method (OLS) to examine the relationship between sovereign credit rating score as the dependent variable and nine independent variables. The equation of panel regression used in this research is as follows:

$$\ln R_t = c + X_1 + X_2 + X_3 + X_4 + X_5 + X_6 + X_7 + X_8 + X_9 + \varepsilon_t \tag{1}$$

Where $\ln R_t$ is the natural logarithm of the numerical score of the rating, X_1 is the political stability index, X_2 is the natural logarithm of GDP, X_3 is the inflation rate, X_4 is the natural logarithm of the corruption index, X_5 is the government debt to GDP rate, X_6 is the natural logarithm of GDP per Capita (PPP), X_7 is the trade balance to GDP ratio, X_8 is the unemployment rate, X_9 is the foreign debt to GDP ratio, and ε_t is the error term.

Credit Rating Agencies Comparison

Grade	Numerical Rating	Moody's	S&P	Fitch	Meaning
Investment Grade	23	Aaa	AAA	AAA	Prime
	22	Aa1	AA+	AA+	
	21	Aa2	AA	AA	High Grade
	20	Aa3	AA-	AA-	
	19	A1	A+	A+	Upper Medium Grade
	18	A2	A	A	
	17	A3	A-	A-	
	16	Baa1	BBB+	BBB+	Lower Medium Grade
	15	Baa2	BBB	BBB	
	14	Baa3	BBB-	BBB-	
Speculative Grade	13	Ba1	BB+	BB+	Non-Investment Grade Speculat
	12	Ba2	BB	BB	
	11	Ba3	BB-	BB-	
	10	B1	B+	B+	Highly Speculative
	9	B2	B	B	
	8	B3	B-	B-	
	7	Caa1	CCC+	CCC+	Substantial Risks
	6	Caa2	CCC	CCC	Extremely Speculative
	5	Caa3	CCC-	CCC-	In Default with Little Prospect for R
	4	Ca	CC	CC+	
	3		C	CC	In Default
	2			CC-	
	1	D	D	DDD	

Table 1: Credit Rating Agencies Comparison and Numerical Rating

Conclusion

This study estimated the sovereign credit rating of Kuwait using a panel data of 40 countries for the year 2017. The results revealed that all three CRAs overrated Kuwait by an average of 3.18 notches above the estimated rating. This paper should be helpful for Kuwaiti policymakers to better manage and improve the factors that mostly affect its credit rating.